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**David A. Genereux
Finance Director**

June 13, 2007

TO: Jill Myers, Town Manager
FROM: David Genereux, Finance Director
RE: FY 2008 Budget – Final Version; June 13, 2007

The attached FY 2008 Budget and supporting documentation represents final recommendations to be presented to the Board of Selectmen and the Finance Committee in advance of the June 13th Town Meeting, and due to the failure of the override vote on June 12. It represents the third incarnation of the FY 2008 budget; and has been balanced by implementing municipal budget reductions and use of the stabilization fund, in response to concerns expressed about maintaining core services and timing to implement a change in budgeting philosophy.

The first FY 2008 budget (Version 1), as presented at the May 8th annual town meeting, relied on an Proposition 2 ½ override of \$1,412,910 in order to balance the budget. Upon the adjournment of that meeting, we decided that it would be prudent to prepare and present a scenario in which the budget was balanced exclusively through budget cuts, in the case that the override failed, and in an effort to manage by best financial practices. The Town has had a history of using one-time revenues, such as the Stabilization Fund and Free Cash, to balance or augment the municipal budget in recent years. If one-time revenue is used to fund a budget, which increases every year, the budget will either need to find a new revenue source or be reduced the following fiscal year. The Town had two good years of excess Free Cash, but we forecast that this source of revenue will see serious decline in FY 2007.

The Stabilization Fund and Free Cash should be used to fund capital purchases or one-time expenses, as opposed to funding an operating budget. We don't want to face the unfortunate scenario that has played out with our northern neighbor; which drained its stabilization and free cash accounts in order to fund the FY 2007 budget. Once stabilization is gone, we will face the same challenges; which can only have two eventualities, either a larger override or extensive budget cuts.

The budget cutting exercise reduced Version 1's municipal budget request by \$780,059, the Uxbridge Public Schools budget request by \$573,271, and requested non-budget warrant articles by \$59,580.00. This exercise was discussed extensively at the May 29th Selectmen's meeting and the June 1st Finance Committee meeting. It soon became apparent that some department budgets would likely be supplemented by substitute motions restoring their budget cuts at the June 13th Town Meeting.

We heard that the Police, Fire, Uxbridge Public Schools, streetlights and a few smaller budgets would obtain full funding, leading to a transfer of \$882,485 from the Stabilization Fund. We met with the

Selectmen on June 4th and the School and Finance committees on June 5th, and detailed this potential scenario, called “Version 2 (The word on the street)” via a PowerPoint presentation, using it to forecast deficits for FY 2009 & 2010. All revenue projects that we use forecasts 2% increases on average for municipal departments, 6% increases for the Uxbridge Public Schools as forecast by the Business Manager, and higher average increases for non-discretionary costs such as health insurance, retirement, and the regional school assessment. With those assumptions, the Town faced a potential deficit of \$1,673,543 in FY 2009. If this deficit was resolved through the use of one time revenue, such as the Stabilization Fund (if there were enough funds available) or Free Cash, the deficit for FY 2010 was forecast at \$2,538,163.00.

While we don’t know whether some form of Version 2 would be adopted at Town meeting, we believe that it was likely that we would be unable to muster support to leave Stabilization untouched in funding the FY 2008 budget. We also don’t believe that this list of motions that was presented at the May 8th Town Meeting, if enacted, would have eliminated the budget deficit. It would appear that there is support for keeping “core services” in place, despite the risk of using stabilization funds. While The Department of Revenue, municipal auditors, rating agencies and the financial team do not recommend using one-time revenue to fund the operating budget, it is clear that we will likely do so for FY 2008 with supplemental motions by any registered voter. We needed a plan.

With that thought in mind, we went through the budgets again, and have come up with this final budget, to be identified as Version 3. This budget built upon the enhancements listed in the preceding paragraphs that we foresaw as probable additions at town meeting. As a result, Version 3 offers a balanced budget via Stabilization Fund transfer of \$1,190,000.00. The total budget, at \$34,708,758.00, represents a reduction of \$163,330.00 from the Version 1 (May 8) municipal budget, as well as the elimination of \$59,580.00 in non-budget warrant articles. Now that the override has failed, we believe that this budget is the most fair and equitable way to reduce expenses while still providing most of the services the residents have come to expect, but with time needed to change or level expectations for FY09.

Most municipal budgets were reduced in this final version, at amounts listed in the budget documentation. The Uxbridge Public Schools budget was unchanged, as the School Committee voted on June 5th to support their May 8th funding request. One line in the non-discretionary expenses, health insurance, was increased by \$41,274, as we had originally funded that line item based on plan design changes recommended by the Insurance Advisory Committee, which was either rejected or not responded to by several of the Town’s unions. This final version trims most municipal department expense budgets, provides no funding for the School Maintenance or the Blanchard School accounts, Road Maintenance, and eliminates one full time Parks position, one part time Library page, and no capital plan.

Why add to the municipal budget, when we initially advocated cutting it? In a word, the answer is **parity**. The Town needs to develop a strategy that all boards support that allows us to fund operations and departments in an equitable manner minimizing the use of Stabilization or Free Cash in crafting the FY 2009 budget. If budgets need to be reduced, they should be reduced in a way that reflects equal fairness. For FY 2008, it is unwise and unfair to fully fund departments that are deemed more essential or have more public spotlight, while severely cutting departments that do not enjoy the same notoriety, but just as essential support. To do so would serve to revisit the past, where each department head sought to fund his/her own budget, at the expense of others which is not consistent with the Charter form of government.

Adoption of this budget will leave the Town facing a potential budget deficit of \$1,925,448 in FY 2009, which if resolved by the use of one-time revenue, leads to a deficit of \$2,778,795 in FY 2010. Stabilization will stand at \$564,249.87.

There has been much discussion concerning using the 1.2 million dollar Douglas Street land sale to replenish the Stabilization Fund in FY 2008, which would be an excellent idea, as long the fund was used for capital items and not utilized to reduce the FY 2009 operating deficit. Leaving town meeting with an unbalanced budget has also been discussed and was suggested early on in the budget review process (March) when an override was not contemplated, but we now believe that with the majority of the revenues in, and a Free Cash forecast, there is no need to wait any longer. We are also concerned with attempting to adopt a budget so close to the time that the tax rate is to be set and the risk of sending out timely tax bills. We will be recommending that the majority of certified FY 2007 Free Cash be transferred to Stabilization, and that any discussion of future override questions be put off until the FY 2009 budget is crafted.

It is apparent that we will have to commence working on a solution for FY 2009 as soon as the FY 2008 budget is in place. The Town has had and maintained a deficit between revenues and expenditures for years. There is simply not enough revenue coming in to maintain services. If there is not the will to reduce services, then revenues will have to be enhanced to pay for them.

While we will continue to seek regional solutions with you serving as the President of a municipal regionalism group (MORE), and we continue to streamline operations, there are many options to consider in the coming months as FY 2009 budgets are prepared including:

- 1.) Consideration of the cost of operations in setting fees and charges
- 2.) Bringing relief to the municipal budget by charging enterprise funds for additional overhead
- 3.) Consider selling Town owned land or other assets
- 4.) Discussing the possibility of a multi-year operation override; and evaluating a possible capital equipment/infrastructure override
- 5.) Reduction/elimination of any "optional" services; reorganization of service offerings
- 6.) Crafting a balanced budget with significant cuts that is revised when projected revenue forecasts (based on these options) are finalized; and
- 7.) Utilizing the recent economic development grant (43D expedited permitting program) to initiate the economic development component of a Master Plan.

We believe that the FY 2009 budget will define how the community sees itself in the future. We are hopeful that passage of Version 3 of the FY 2008 budget in its current form will start that planning process; and that we can count on the support and participation of all boards and committees, as well as the general public in resolving the issue of how to properly fund the FY 2009 budget.

Please contact me with any questions or concerns.

Attachment

CC: Board of Selectmen
Finance Committee